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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 COME-00 TRSE-00

INT-05 L-03 FRB-03 OMB-01 ITC-01 SP-02 USIA-06 AGR-05

AID-05 CIAE-00 INR-07 LAB-04 NSAE-00 OIC-02 SIL-01

STR-04 CIEP-01 CEA-01 AF-08 ARA-06 NEA-10 /115 W

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FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 1952

INFO USMISSION OECD PARIS PRIORITY

USMISSION GENEVA

USMISSION EC BRUSSELS

AMEMBASSY TOKYO

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

C O N F I D E N T I A L SECTION 01 OF 02 BONN 15783

NOFORN

E.O. 11652: GDS

TAGS: EMIN, UNCTAD, FR, GW

SUBJECT: FRANCO-GERMAN CONSULTATIONS ON COPPER AND
COMMON FUND

REF: BONN 15037

1. ON SEPTEMBER 17 ECONMIN DEPUTY ASST. SECRETARY
MUELLER-THUNS BRIEFED EMBOFF ON SEPTEMBER 13 FRANCO-
GERMAN CONSULTATIONS ON COPPER AND ADDED A FEW COMMENTS
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CONCERNING SEPTEMBER 14 CONSULTATIONS ON COMMON FUND.

WHILE A MEASURE OF AGREEMENT WAS REACHED ON PROCEDURAL POINTS, THERE WAS NO PROGRESS IN NARROWING THE WIDE GAP SEPARATING THE SUBSTANTIVE POSITIONS OF THE TWO COUNTRIES. KIPPER, WHO WILL ATTEND HLG ON COMMODITIES MEETING, PLANS TO DISCUSS WITH PRESTON AND HEWITT SUGGESTIONS FOR AN INFORMAL MEETING OF MAJOR CONSUMERS PLUS FRANCE AND FOR A MEETING IN GENEVA OF ALL CONSUMERS INCLUDING LDCS. WHILE THE FRENCH AND GERMANS AGREED THERE MAY BE SOME BENEFITS TO HOLDING SUCH MEETINGS, BOTH SIDES WERE RATHER LUKEWARM.

2. FRENCH TEAM VISITING BONN FOR COPPER TALKS WAS HEADED BY LEGOUX AND INCLUDED REPRESENTATIVES FROM INDUSTRY AND FINANCE MINISTRIES, G.I.R.M., AND MINING ASSOCIATION. MUELLER-THUNS HEADED GERMAN SIDE, WHICH INCLUDED INDUSTRY AS WELL AS GOVERNMENT REPRESENTATIVES. G.I.R.M. OFFICIAL (DOUCHY) BRIEFED GERMANS ON ACTIVITIES OF HIS ORGANIZATION, NOTING THAT G.I.R.M. IS A PUBLICLY-OWNED BODY WHICH DOMINATES COPPER TRADING WITHIN FRANCE. (ABOUT 80-95 PERCENT OF FRENCH COPPER TRADE IS HANDLED BY G.I.R.M.). G.I.R.M. IS ALSO RESPONSIBLE FOR BUILDING NATIONAL COPPER STOCK WITH TARGET OF 60,000 TONS. FRENCH INSISTED THAT THIS COPPER STOCK IS SOLELY A DOMESTIC MEASURE DESIGNED TO IMPROVE STABILITY OF SUPPLIES, AND THAT IT WILL HAVE NO RELATION TO ANY BUFFER STOCK WHICH MAY BE AGREED UPON IN INTERNATIONAL FORA.

3. FRENCH ARGUED THAT BUFFER STOCK FOR COPPER WAS FINANCIALLY FEASIBLE AND THAT IT WOULD BENEFIT CONSUMERS AS WELL AS PRODUCERS SINCE IT WOULD STABILIZE PRICES AND ASSURE SUPPLIES. IN FRENCH VIEW, A STOCK OF 800,000 TONS WOULD BE ADEQUATE, PROVIDED IT WERE BACKSTOPPED BY PRODUCTION AND EXPORT CONTROLS. (WITHOUT SUCH CONTROLS, FRENCH DID NOT BELIEVE PRICE STABILIZATION WOULD BE POSSIBLE, EVEN WITH A MUCH LARGER STOCK.) FRENCH AGREED WITH GERMAN COMMENT THAT NO BUFFER STOCK COULD BE EFFECTIVE WITHOUT U.S. PARTICIPATION. IN GERMAN VIEW, A BUFFER STOCK OF AT LEAST 1.6 MILLION TONS, ALSO BUTTRESSED BY CONTROLS, WOULD BE NECESSARY

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FOR EFFECTIVE PRICE STABILIZATION. GERMANS ARGUED THAT COSTS OF BUILDING A STOCK OF THIS SIZE WOULD BE FAR IN EXCESS OF BENEFITS THAT MIGHT RESULT, THAT PRODUCTION CONTROL WOULD BE IMPOSSIBLE, AND THAT IT WOULD BE MOST DIFFICULT TO CONTROL EXPORTS. GERMANS BELIEVED IT WOULD BE PREFERABLE TO CONCENTRATE ENERGY ON ANALYSIS OF COPPER MARKET AIONG LINES DISCUSSED AT MARCH MEETING IN GENEVA, RATHER THAN PREJUDGE OUTCOME OF SUCH ANALYSIS BY PREMATURE EFFORTS TO DEVELOP MEASURES. FRENCH COUNTERED WITH CLAIM THAT

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EVEN THE U.S. IS BEGINNING TO FAVOR PROPOSALS FOR BUFFER STOCK. MUELLER-THUNS SAID THAT HE TOLD LEGOUX THAT HE TOO HAD HEARD RUMORS OF A CHANGE IN THE U.S. POSITION, BUT HE HAD CHECKED OUT THESE INDICATIONS AND HAD FOUND THAT THEY WERE FALSE. (COMMENT: EMBASSY HAS REPEATEDLY ASSURED MUELLER-THUNS AS WELL AS OTHER FRG OFFICIALS THAT U.S. DOES NOT FAVOR A COPPER BUFFER STOCK.)

4. IN A PARTING SHOT, FRENCH SUGGESTED THAT ONCE A COPPER AGREEMENT IS IN PLACE, THE LME COULD BE GRADUALLY UNDERCUT AND PHASED OUT. COPPER AGREEMENT COULD BE SUPPORTED BY NATIONAL ORGANIZATIONS SUCH AS G.I.R.M., THUS OBVIATING NEED FOR LME. MUELLER-THUNS INDICATED THAT FRENCH DISLIKE OF LME CAME AS NO SURPRISE TO HIM, BUT THAT THIS SUGGESTION LEFT GERMAN INDUSTRY REPS AGHAST. POINTING OUT THE IMPORTANCE OF THIS MARKET TO GERMAN INDUSTRY, THAT THE TIN AUTHORITY WORKS THROUGH THIS MARKET, AND THAT EVEN SPECULATIVE ACTIVITIES MAKE AN IMPORTANT CONTRIBUTION, MUELLER-THUNS CONCLUDED THAT THE FRG WOULD NEVER SUPPORT AN EFFORT TO ELIMINATE THE LME.

5. BOTH GOVERNMENTS HAD PREPARED PAPERS ON COMMON FUND FOR SEPTEMBER 14 SESSION, AND DEVOTED RATHER FRUITLESS EFFORTS TO ATTEMPTS TO SOFTEN EACH OTHER'S PAPER. THE FRENCH MADE CLEAR THEIR VIEW THAT THE COMMON FUND MUST HAVE A FIRM FINANCIAL UNDERPINNING. IN ADDITION TO MAKING DIRECT CONTRIBUTIONS, CONSUMER GOVERNMENTS WOULD BE OBLIGED TO GUARANTEE COMMON FUND BORROWINGS FROM CAPITAL MARKETS.
HILLENBRAND

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